# EXHIBIT 242

**From:** james.vonmoltke@jpmorgan.com [james.vonmoltke@jpmorgan.com]
**Sent:** 6/16/2004 7:40:54 PM
**To:** jes.staley@jpmorgan.com; david.hc.brigstocke@jpmorgan.com
**CC:** richard.herbst@jpmorgan.com.; Alexander I Cook [cn=alexander i cook/o=jpmchase@jpmchase]; david.stawik@jpmorgan.com; Kristine Jamie Patterson [cn=kristine jamie patterson/o=jpmchase@jpmchase]; shaifali.aggarwal@chase.com; james von moltke
**Subject:** Thoughts on the 6/15/04 meeting with Highbridge
**Attachments:** _; _; 20619_Discussion materials (meeting with HB) - Ver 1_7.ppt.zip; 20622_Alpha Summary (6.10.04)_external.ppt.zip

Jes and David - -

For purposes of determining next steps, we thought it might be useful to set out some of our observations from the meeting yesterday and some further relfections. I have been trading calls with with Don Truesdale all day and will leave voicemails when I get hold of him. J.

**Observations from the 6/15 meeting**

- They were more focused on the 11 year non-compete than we had anticipated. They want to be tied as loosely as possible after period of employment contract/earn out.
- The cap on total consideration was of significant concern to the extent that it represents a true economic cap. Implicitly, therefore, the $12.5 bn AUM 2010 is a number they see as realistic.
- The deferral of the additional purchases was much less of a problem. Together, these views are evidence they think company's returns are extremely stable and growth is likely to be high as in recent years (which they would).
- The tax treatment of consideration vs. ongoing draws is a key issue for them and they would welcome any tax-efficient structure for them. Our presentation illustrated the difference in proceeds from our transaction both before and after tax.
- Henry brought up the idea of JPMC sharing a pro rate portion of the risk they currently have in the fund by virture of their existing $400 million deferral into the rabbi trust, effectively giving them a floor on the value of 40% of this amount after the initial purchase.
- They seemed reasonably relaxed about management rights, acknowledging some of our likely constraints, particularly once we are over 50%.

**Further reflections**

- Given the feedback you got from Jeffrey Epstein, clearly they were not happy with what they saw in terms of the numbers applied to our structure. Whether this is posturing or not, our response should be that we are open to discussions about the structure and other terms and that we had attempted in yesterday's discussion to table a variety of important issues.
- The good news is that we did not leave any money on the table and that, based on the 9-11x multiple range we discussed with Dimon et al and 8x we showed yesterday, we have some room to move within our economic and internal constraints.
- Clearly, part of the bid/ask spread derives from our greater focus on the downside risks and their confidence regarding future performance. The structure can only do so much to bridge this gap - to get something done, they need to appreciate our downside constraints and we need to get more comfortable with the relatively low variability of their business (historically).
- The focus on the number of years of non-compete suggests they may not want to retire after five years. Our structure is designed to pay them some contingent premium over the amount they would earn over five years, on the assumption that it will be difficult to monetize the value of the company at that point and they would likely (i) have to sign on to an

EXHIBIT 2
WIT: Staley
DATE: 6/10/23
C. Campbell, RDR CRR CSR #13921

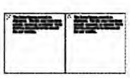
employment contract at that point to sell the company, (ii) dissolve the fund and so generate zero in proceeds from a "sale", or (iii) at best take a much dimished share in the ongoing earnings.

- At this point, it is a fair bet that they are in discussions with a number of other parties. First, our 'proposal' was clearly being compared either to expectations or to value being offered by another party. The Institutional Investor article is also strongly suggestive of a desire to make their name and model better known and thereby generate value through managing perceptions.
- The principal point they did not get from yesterday's discussion was that there is a gradual transfer of risk from them to us and that they should look at our structure as crystallizing value in stages for them at a multiple, after which they share in much of the upside and their downside is capped.

**Next steps**

- I think it makes sense for you to attempt to establish contact directly with Glen or Henry as a courtesy. Message should be: "We are still committed to the discussion. They have to understand the nature of our meeting yesterday was to table a variety of issues, our structural thoughts, and to help them understand it by way of some numbers as an example. We are still a long way from a final deal and would like to continue the discussion, notably to hear what their thoughts, comments, concerns are regarding the discussion yesterday." It may be worthwhile to blame your advisors for the conservatism reflected in the numbers yesterday . . .
- They should be encouraged to go ahead with the Dimon and Coulter lunch and not be discouraged based on the first discussions of structure. Cancelling at this stage would not be either a good signal or good for the overall relationship.
- In the meeting yesterday, they noted that they have not yet had a chance to walk us through their specific objectives (we had laid out our understanding of theirs and ours in the presentation). This would be a good part of a follow-up discussion, ideally with you and prior to the Dimon/Coulter meeting.
- We continue to be concerned about the role Jeffrey Epstein is or is not playing. One concern that we have is that Jeffrey has been educating Glenn & Henry about our structure and valuation thoughts behind our backs such that their expectations for yesterday's were higher. This is clearly not in our interest.

I attach below the presentation we went though with Glen and Henry yesterday as well as the presentation passed along to Jeffrey last week. It should be noted that the "valuation" in the materials for Jeffrey is not a single point, but a series of outputs based on a range of inputs, notably the performance and inflow cases. At each level of value, the total package to Glen and Henry actually compares reasonably favorably to the valuation. They get somehwat protected on the downside and we take a little more of the upside, which is the specific intention of our proposed structure.



JUNE 2004

# PROJECT ALPHA DISCUSSION MATERIALS

STRICTLY PRIVATE AND CONFIDENTIAL

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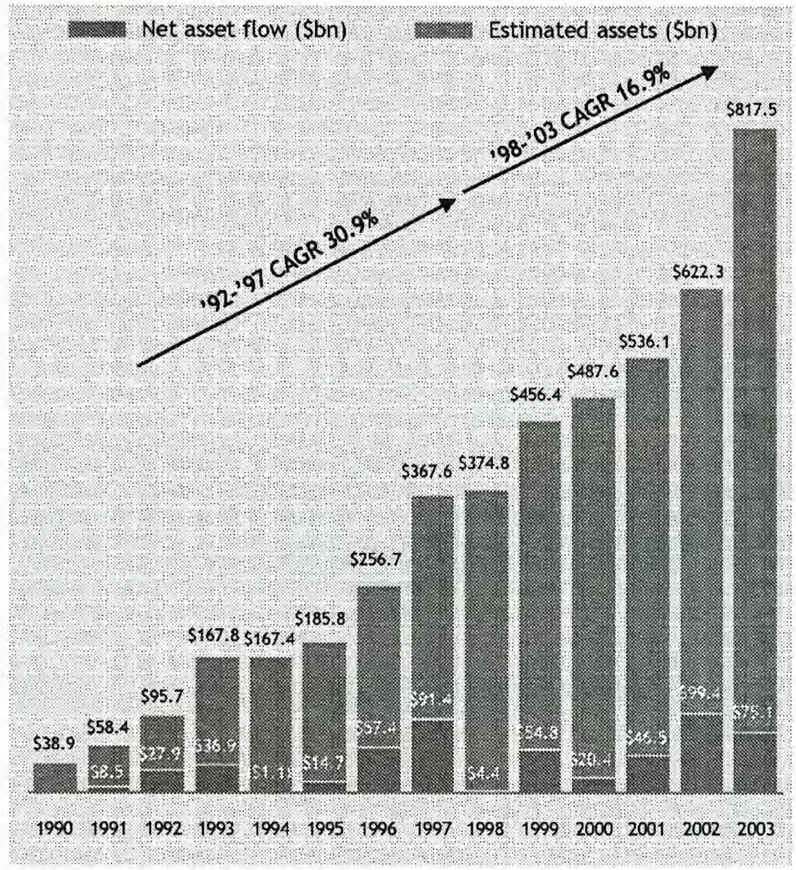
# Hedge fund industry outlook



**Summary assessment**

- The hedge fund industry has enjoyed strong growth since the early 1990s and appears to be well-positioned for continued growth
  - Increasing comfort with allocations to absolute return strategies on the part of institutional investors
  - Low interest rate, credit spread and expected equity return environment is forcing investors to seek (and pay for) alpha
  - Continuing desire of outperforming managers to earn performance-based compensation perpetuates the growth of new funds and strategies
- "Institutionalization" of the industry is increasing and gathering pace
  - Maturing of the industry combined with a desire on the part of traditional managers to expand product offerings
  - Investors demanding better risk management and control environments
  - Generational shift as founding owners of established funds seek to sell
- Certain challenges to the industry exist, the impact of which is unknown
  - Possibility of regulation
  - Potential fee pressures
  - Capacity constraints on most successful strategies

**Hedge fund industry assets under management 1990–2003**



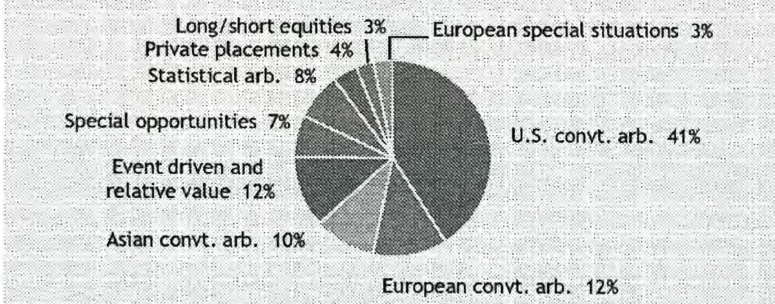

Source: www.hedgefundresearch.com

# Company description

## Overview

- Highbridge Capital Corporation is managed by Highbridge Capital Management L.L.C., a private investment management company and registered broker/dealer founded in 1992 by partners Glenn Dubin and Henry Swieca
- Highbridge is structured as a multi-strategy global hedge fund with current assets under management in excess of $5.5 billion
- Highbridge Capital Management has over 130 staff members including 57 investment and trading professionals in offices in New York, London and Hong Kong
- Highbridge operates with seven discrete strategy groups that seek to generate consistent absolute returns
- In 2004, Highbridge will launch three single strategy funds, namely the Highbridge Event-Driven/Relative Value Fund (closed), the Highbridge Long/Short Equity Fund and the Highbridge European Special Situations Fund

## Fund exposure by strategy at March 31, 2004



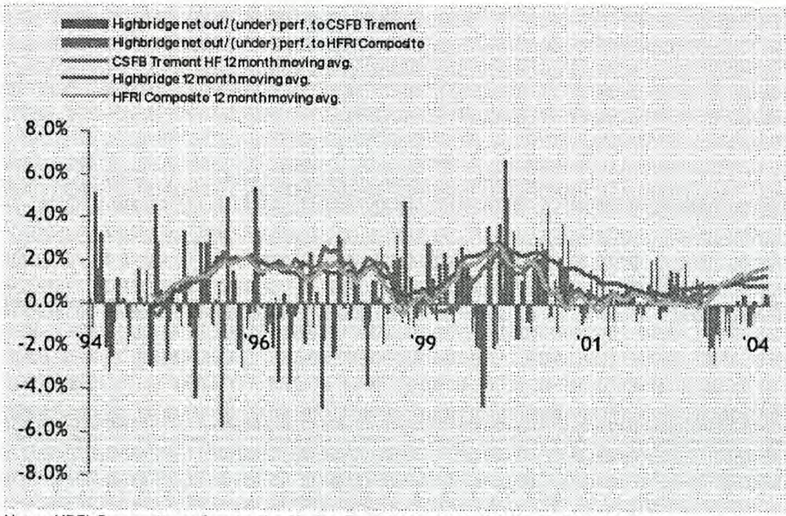

**Total AUM = $5.5 bn**

## Performance history

| | | Highbridge | S&P 500 | Lehman Aggregate Bond | Merrill Lynch Convertible Bond |
|---|---|---|---|---|---|
| Annualized return | 1 yr | 10.57% | 35.12% | 5.40% | 26.14% |
| | 3 yrs | 9.90% | 0.63% | 7.44% | 8.31% |
| | 5 yrs | 17.38% | (1.19)% | 7.29% | 7.65% |
| | 1/1/93–3/31/04 | 16.08% | 10.89% | 7.28% | 10.40% |
| Standard deviation | 1 yr | 2.42% | 10.09% | 5.21% | 5.36% |
| | 3 yrs | 2.81% | 17.08% | 4.22% | 10.01% |
| | 5 yrs | 3.89% | 16.94% | 3.73% | 15.72% |
| | 1/1/93–3/31/04 | 5.03% | 15.05% | 3.85% | 12.66% |
| Sharpe ratio | 1 yr | 3.68 | 2.96 | 0.84 | 4.64 |
| | 3 yrs | 2.59 | 0.00 | 1.29 | 0.63 |
| | 5 yrs | 3.47 | (0.19) | 1.03 | 0.27 |
| | 1/1/93–3/31/04 | 2.21 | 0.49 | 0.80 | 0.48 |

Source: Company marketing documents, Mobius

## Monthly returns relative to industry




Note: HRFI Composite refers to the Hedge Fund Research Index Funds Weighted Composite

# Investment considerations

| Key concerns | Comments |
|---|---|
| ■ Key employee retention | ■ Retention of founders, continued provision of attractive platform, and unchanged compensation formula should all support continuity<br>■ Additional financial incentives for PMs and ultimate succession for G&H are important issues to be considered |
| ■ Capacity | ■ Convertible arbitrage strategy is likely at or near capacity<br>■ Multi-strategy format with spin-off model potentially alleviates pressure; however, it depends on the ability of Highbridge to build performance track records in new strategies |
| ■ Buying at the high point of industry evolution | ■ Highbridge model well-placed for continued growth and to resist fee pressures contingent on sustained performance<br>■ Founders have a track record of successfully anticipating and adjusting to changing industry dynamics |
| ■ Paying for future investment performance | ■ Proposed transaction consideration based on a multiple of management fees only |
| ■ Control environment | ■ Solid operating platform regulated as a NASD registered broker/dealer |
| ■ High water mark | ■ The multi-strategy structure of Highbridge has a lower risk of sustained declines than a single strategy fund |

# Preliminary proposal for discussion with Highbridge

PROJECT ALPHA DISCUSSION MATERIALS

**Preliminary term sheet**

**Purchase price**

- [Multiple of] Management Fee Operating Income only (no consideration for incentive fees)
- Based on estimated run-rate of [$53] million, the valuation for 100% would be [$xxx-xxx] million

**Transaction structure**

- Initial purchase of 40% of the company for consideration of between [$xxx and $xxx] million
- Additional purchases of 20% on the 3rd, 4th and 5th anniversaries of the initial purchase at the same multiple of Management Fee Operating Income as the initial purchase applied to the 12 month period prior to the additional purchase
- Total consideration would be subject to a cap of [$xxx] million in net present value terms and the additional purchases can be deferred in the event of a decline in AUM for two consecutive years
- In lieu of JPMC paying for the Net Incentive Fee Income, JPMC would only become entitled to it pro rata over 5 years. This applies to each of the four purchases

**JPMC ownership in Net Incentive Fee Income**

| | | Year 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|
| Initial purchase (year 1) | 40% | 0% | 8% | 16% | 24% | 32% | 40% | 40% |
| 2nd payment (year 4) | 20% | - | - | - | 0% | 4% | 8% | 12% |
| 3rd payment (year 5) | 20% | - | - | - | - | 0% | 4% | 8% |
| 4th payment (year 6) | 20% | - | - | - | - | - | 0% | 4% |
| **Total** | | **0%** | **8%** | **16%** | **24%** | **36%** | **52%** | **64%** |

**Other**

- Employment and non-compete agreements with the Founders
- AWM to enjoy certain limited management rights

Note: See Appendix F for draft term sheet. Defined terms refer to definitions therein

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# Projection assumptions and cases

## Projection assumptions

| | Multi-Strategy Fund | Single-Strategy Funds | JPM assets |
|---|---|---|---|
| Management fee compensation (% of mgmt fees) | 25% | 33% | 25% |
| Incentive fee compensation (% of incentive fees) | 50% | 60% | 50% |
| Estimated corporate overhead (allocated to mgmt fees) | $30 | $0 | $0 |
| Corporate overhead annual growth | 10.0% | NA | NA |
| Fund expenses | 0.40% | 0.40% | 0.40% |

| | |
|---|---|
| Total AUM capped at $10 billion | |
| Tax rate on upstreamed earnings | 38% |
| JPMorgan ownership | 40% initial ownership, 20% incremental purchases at the end of years 3, 4, 5 |
| Intangibles | Amortized over 15 years and 100% tax deductible |

## Fund flow, investment return and fee structure cases

| | Downside case | Base case | Upside case |
|---|---|---|---|
| Average performance after management fees and expenses[1] | 4% | 8% | 16% |
| Fund flows - HCC | $125 | $250 | $250 |
| Fund flows - JPM originated assets in synergies case | $125 | $250 | $250 |
| Multi-Strategy Fund: | | | |
| Management fee (% of average AUM) | 1.5% | 2% | 2% |
| Incentive fee (% of market performance) | 20% | 25% | 25% |
| Single-Strategy Funds: | | | |
| Management fee (% of average AUM) | 1.5% | 1.5% | 1.5% |
| Incentive fee (% of market performance) | 20% | 20% | 20% |
| JPMorgan assets: | | | |
| Management fee (% of average AUM) | 1.5% | 2% | 2% |
| Incentive fee (% of market performance) | 20% | 25% | 25% |

[1] Gross returns are 7.7%, 13.1% and 23.7%, respectively

# Financial projections

**Base case[1]**

| $ in millions | 1/1/05 | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|---|---|---|
| Average AUM | $6,100 | $7,896 | $9,039 | $10,269 | $11,599 | $12,909 | $14,106 | $15,303 | $16,617 | $18,097 |
| Management fee operating income | | $76 | $90 | $105 | $122 | $139 | $156 | $178 | $203 | $231 |
| Net incentive fee income | | 91 | 111 | 128 | 147 | 168 | 190 | 212 | 239 | 269 |
| Pre-tax profit | | 168 | 201 | 233 | 269 | 307 | 346 | 390 | 441 | 500 |

**Downside case[2]**

| $ in millions | 1/1/05 | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|---|---|---|
| Average AUM | $5,899 | $7,222 | $7,791 | $8,385 | $9,008 | $9,660 | $10,342 | $11,057 | $11,790 | $12,494 |
| Management fee operating income | $42 | $45 | $48 | $52 | $55 | $59 | $62 | $65 | $68 | $71 |
| Net incentive fee income | 46 | 45 | 49 | 53 | 58 | 62 | 67 | 73 | 78 | 84 |
| Pre-tax profit | 88 | 90 | 97 | 105 | 113 | 121 | 129 | 138 | 146 | 155 |

[1] Assumes annual inflows of $500 million, average net investment performance of 8% and a cap on new inflows after $10 billion in net assets (includes synergies with JPMC)
[2] Assumes annual inflows of $125 million, average net investment performance of 4% and a cap on new inflows after $10 billion in net assets

# Preliminary valuation

**Summary stand-alone valuation metrics**

$ in millions

| | Valuation range | Implied 2004E pre-tax income multiple | 2004E pre-tax income |
|---|---|---|---|
| **Discounted cash flows[1]:** | | | |
| Downside case: | $493 – $715 | 5.6x -8.1x | $88.0 |
| Base case: | $1,236 – $1,823 | 7.7x - 12.2x | $149.7 |
| Upside case: | $2,467 – $3,705 | 12.0x - 18.1x | $205.0 |
| **Trading comparables:** | | **Comparable multiple** | **Run-rate metrics[3]** |
| Man Group EBITDA multiple: | $1,346 | 10.7x | $125.8 |
| RAB Capital EBITDA multiple: | $2,239 | 17.8x | $125.8 |
| **Transaction multiples[2]:** | | | |
| EBITDA multiple | $692 | 5.5x | $125.8 |
| Management fee multiple: | $880 | 8.0x | $110.0 |

$0 $500 $1,000 $1,500 $2,000 $2,500 $3,000 $3,500 $4,000

Note: JPMorgan estimates
[1] DCF discount rates 15%-20% and terminal multiples of 6x-8x pre-tax income
[2] Transaction multiples based on Nuveen upfront payment for the acquisition of Symphony hedge fund (June 2001)
[3] Discounted at 10% and 15% rates, respectively

PROJECT ALPHA DISCUSSION MATERIALS

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# Analysis at various prices

$ in millions

| Stand-alone valuation range | Basis | $500 | $550 | $600 | $650 | $700 | $750 | $800 |
|---|---|---|---|---|---|---|---|---|
| **Multiple of Management Fee Operating Income:** | | | | | | | | |
| Run rate | $52.5 | 9.5x | 10.5x | 11.4x | 12.4x | 13.3x | 14.3x | 15.2x |
| **Multiple of pre-tax profit:**[1] | | | | | | | | |
| Run rate @ 4% average net investment performance | $89.2 | 5.6x | 6.2x | 6.7x | 7.3x | 7.9x | 8.4x | 9.0x |
| Run rate @ 8% average net investment performance | 125.8 | 4.0x | 4.4x | 4.8x | 5.2x | 5.6x | 6.0x | 6.4x |
| Run rate @ 16% average net investment performance | 199.2 | 2.5x | 2.8x | 3.0x | 3.3x | 3.5x | 3.8x | 4.0x |

# Financial consequences to Founders

**NPV of pre-tax earnings to G&H from continuing operations (2005E - 2009E)[1]**

| $ in millions | | Inflows | | | | |
|---|---|---|---|---|---|---|
| | | $0 | $125 | $250 | $375 | $500 |
| Market performance % | 0.0% | $142 | $162 | $181 | $200 | $220 |
| | 4.0% | $325 | $349 | $373 | $397 | $421 |
| | 8.0% | $661 | $701 | $741 | $781 | $821 |
| | 12.0% | $899 | $948 | $998 | $1,048 | $1,096 |
| | 16.0% | $1,170 | $1,232 | $1,296 | $1,355 | $1,412 |

[1] Discounted at 15%

# Precedent transaction analysis — alternative

$ millions

| Announcement date | Acquirer/target | Type of assets acquired | AUM acquired | Purchase price | Transaction value | Purchase price multiple Net income | Transaction value multiples AUM | LTM revenue | LTM mgmt. fees | LTM EBITDA | LTM EBIT |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 11/25/03 | Man group plc/BlueCrest[1] | Fixed income arbitrage/hedge fund | 3,100 | $168 | $168 | NA | 23.0% | NA | NA | NA | 13.8x |
| 05/24/02 | Man Group plc/RMF | Fund of funds | 8,500 | 833 | 833 | 39.0x | 9.8 | NA | NA | NA | 30.9 |
| 05/01/02 | UniCredito Italiano Group/Momentum Group | Fund of funds | 1,500 | 110 | 110 | NA | 7.3 | NA | NA | NA | NA |
| 01/15/02 | TA Associates/Clinton Group | Single/hedge fund | 5,800 | 110 | 110 | NA | 6.0 | NA | NA | NA | NA |
| 07/10/01 | Mass Mutual/OppenheimerFunds/Tremont Advisers | Fund of funds/consulting | 8,000 | 145 | 144 | 32.3 | 1.8 | 5.4 | 6.3 | 17.9 | 19.9 |
| 06/18/01 | John Nuveen/Symphony[2] | Hedge fund | 4,000 | 210 | 210 | 9.2 | 5.3 | 3.3 | 8.0 | 5.5 | 5.5 |

- Man Group plc/BlueCrest
  - Man Group entered into an agreement to acquire 25% of BlueCrest Capital Management from its principals for £105 million in cash and shares. The consideration comprised 4,959,210 new Ordinary Shares and cash of £33.3 million to be funded from existing resources
  - Man Group will receive preferential access to available capacity from BlueCrest
  - The acquisition is expected to be earnings enhancing, before the acquisition of goodwill, in the first full financial year, to March 31, 2005
- Man Group plc/RMF
  - Man Group agreed to acquire RMF for consideration of $833 million consisting of 23.3 million new ordinary shares and cash of $510 million
  - At completion, Rainer-Marc Frey, joint founder and CEO and Adrian Gut, joint founder and COO, will enter into new service contracts for a minimum of three years as employees of RMF. In addition, other senior managers have extensive retention packages already in place to ensure continuity
  - RMF's institutional products principally generate management fees as opposed to performance fees, thereby providing more predictable recurring earnings
  - RMF's growth prospects should also lower Man Group's vulnerability to its recently volatile AHL funds
    - RMF will bring down Man Group's reliance on AHL to 22% of funds under management from the current 40%
  - The Board expects the financial impact of the acquisition and the placing to be broadly neutral to underlying earnings per share (excluding goodwill amortization) in the financial year to March 31, 2003 and earnings accretive thereafter
- Unicredito Italiano Group/Momentum Group
  - Pioneer Global Asset Management S.p.A, a subsidiary of Unicredito Italiano S.p.A, agreed to acquire Momentum Group for $110 million
  - Michael Goldman, leading the investment team, will continue to manage the funds in his new capacity as the Chief Investment Officer of the Pioneer Alternative Investments' fund of hedge fund group. Matthew Nurick shall be appointed as the co-Chief Investment Officer. Senior Momentum employees have entered into long-term incentive arrangements with Pioneer

[1] Man group/BlueCrest: Deal financials have been converted at a rate of 1.7 dollars per GBP
[2] John Nuveen/Symphony: Net income assumes an effective tax rate of 40%

# Precedent transaction analysis – alternative (cont'd)

- TA Associates/Clinton Group
  - In this transaction, TA Associates will invest $110 million in Clinton for a minority interest
  - The transaction is designed to further Clinton's ongoing infrastructure development, as well as to provide seed capital for the expansion of Clinton's product offerings
- Mass Mutual/OppenheimerFunds/Tremont Advisors
  - Mass Mutual agreed to acquire Tremont Advisors for approximately $140 million. The transaction will be an all-cash deal for all of Tremont's outstanding shares at $19 per share
- John Nuveen/Symphony
  - San Francisco-based Symphony Asset Management, Inc. was founded in 1994 as an economic and intellectual partnership between BARRA Inc., and four entrepreneurs. The firm was reorganized in 1996 as Symphony Asset Management LLC ("Symphony"), formally dividing the ownership interests between BARRA and the founding partners (each with a 50% stake)
    - The firm offers its investment services to pension funds, university endowments and foundations, off-shore banks, funds-of-funds, mutual fund distributors and qualified individuals
    - Symphony's portfolios are designed primarily to reduce risk through market-neutral and other strategies in several equity and fixed-income styles
    - As of the announcement date, Symphony had approximately $4.0 billion in total assets under management ("AUM")
  - Nuveen announced its agreement to acquire Symphony for $208 million in cash with potential additional future payments up to a maximum of $180 million based on Symphony's reaching specifed performance and growth targets for its business over the next five years (terms were not disclosed for the earnout). Barra will receive $128 million of the initial cash proceeds and up to an additional $12 million in future contingent consideration for its ownership interest
  - Nuveen has a walk-away right at closing specifying that the closing client revenue run-rate shall not be less than 90% of the specified base client revenue run-rate
  - Nuveen has structured the transaction to ensure long-term retention of all of Symphony's key people, such as Jeffrey Skelton, CEO, and founding partners, Neil Rudolph, Praveen Gottipali and Michael Henman. Terms were not available

| ($ millions) | At July 16, 2001 |
|---|---|
| Net book value | $4.5 |
| Intangible assets | 45.8 |
| Goodwill | 159.9 |
| **Net assets acquired** | **$210.2** |

  - Of the $45.8 million of acquired intangible assets, $43.8 million was assigned to existing contractual customer ralationships (approximate 19-year estimated useful life), $1.6 million to internally developed software (5-year estimated useful life), and the remaining $0.4 million to a favorable lease (38-month useful life). Of the $159.9 million assigned to non-amortizable goodwill, approximately $10.7 million is expected to be deductible for 2002 tax purposes

# Symphony Asset Management

## Investment philosophy

- Symphony's core market-neutral alternative investment disciplines are designed to reduce the systematic risk of investing in several equity and fixed-income asset classes and produce absolute, positive returns regardless of broad market direction

## Symphony FYE 3/31/01

| $ millions | | % |
|---|---|---|
| Management fees | $26.2 | 42% |
| Performance fees | 35.6 | 57 |
| Other | 0.9 | 1 |
| | 62.7 | |
| Compensation and benefits | 19.0 | |
| Other | 5.9 | |
| Income allocable to members | 37.9 | 60 |

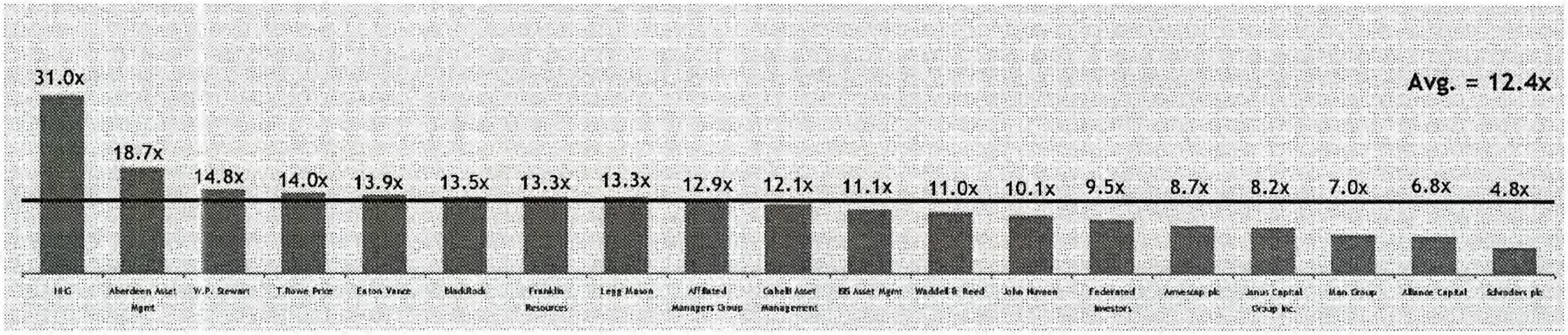
## Investment strategies

- **Equity strategies:** include long-only and market-neutral strategies, invested in major markets around the world. Each strategy incorporates elements of Symphony's proprietary approach to money management combining quantitative screening and qualitative analysis. Long-only strategies are benchmarked against indices such as the S&P 500, the S&P MidCap 400 and the Wilshire 4500. Market-neutral strategies take long and short positions while maintaining dollar neutrality and are benchmarked against U.S. Treasury Bills
- **Fixed-income strategies:** include convertible-arbitrage and credit arbitrage market-neutral investing. In evaluating bonds, Symphony's investment process subsumes both equity and fixed-income analysis. Equity analysis guides the selection process to opportunities arising from changing default risk. Fixed-income analysis may uncover mispricing opportunities in the structure of the bond relative to other, similar instruments

Source: Company reports and website

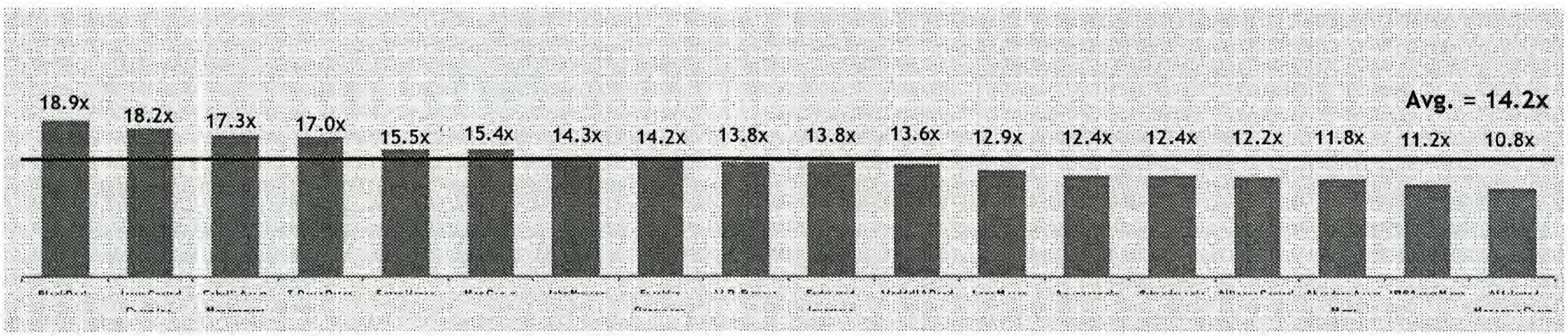
# Publicly-traded investment management firms

## Firm value/LTM EBITDA (x)




Trading multiples as of June 4, 2004

## Share price/2005E EPS (x)




Trading multiples as of June 4, 2004

PROJECT ALPHA DISCUSSION MATERIALS

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| $ in millions | 1/1/05 | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E |
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| Net incentive fee income | 46 | 45 | 49 | 53 | 58 | 62 | 67 | 73 | 78 | 84 |
| Pre-tax profit | 88 | 90 | 97 | 105 | 113 | 121 | 129 | 138 | 146 | 155 |

| | Downside case | Base case | Upside case |
|---|---|---|---|
| Average performance after management fees and expenses[1] | 4% | 8% | 16% |
| Fund flows - HCC | $125 | $250 | $250 |
| Fund flows - JPM originated assets in synergies case | $125 | $250 | $250 |
| | | | |
| Multi-Strategy Fund: | | | |
| Management fee (% of average AUM) | 1.5% | 2% | 2% |
| Incentive fee (% of market performance) | 20% | 25% | 25% |
| | | | |
| Single-Strategy Funds: | | | |
| Management fee (% of average AUM) | 1.5% | 1.5% | 1.5% |
| Incentive fee (% of market performance) | 20% | 20% | 20% |
| | | | |
| JPMorgan assets: | | | |
| Management fee (% of average AUM) | 1.5% | 2% | 2% |
| Incentive fee (% of market performance) | 20% | 25% | 25% |

**Purchase price**

- [Multiple of] Management Fee Operating Income only (no consideration for incentive fees)
- Based on estimated run-rate of [$53] million, the valuation for 100% would be [$xxx-xxx] million

**Transaction structure**

- Initial purchase of 40% of the company for consideration of between [$xxx and $xxx] million
- Additional purchases of 20% on the 3rd, 4th and 5th anniversaries of the initial purchase at the same multiple of Management Fee Operating Income as the initial purchase applied to the 12 month period prior to the additional purchase
- Total consideration would be subject to a cap of [$xxx] million in net present value terms and the additional purchases can be deferred in the event of a decline in AUM for two consecutive years
- In lieu of JPMC paying for the Net Incentive Fee Income, JPMC would only become entitled to it pro rata over 5 years. This applies to each of the four purchases

**JPMC ownership in Net Incentive Fee Income**

| | | Year 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|
| Initial purchase (year 1) | 40% | 0% | 8% | 16% | 24% | 32% | 40% | 40% |
| 2nd payment (year 4) | 20% | - | - | - | 0% | 4% | 8% | 12% |
| 3rd payment (year 5) | 20% | - | - | - | - | 0% | 4% | 8% |
| 4th payment (year 6) | 20% | - | - | - | - | - | 0% | 4% |
| **Total** | | **0%** | **8%** | **16%** | **24%** | **36%** | **52%** | **64%** |

**Other**

- Employment and non-compete agreements with the Founders
- AWM to enjoy certain limited management rights

| $ in millions | | Inflows | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| | | $0 | $125 | $250 | $375 | $500 |
| Market performance % | 0.0% | $142 | $162 | $181 | $200 | $220 |
| | 4.0% | $325 | $349 | $373 | $397 | $421 |
| | 8.0% | $661 | $701 | $741 | $781 | $821 |
| | 12.0% | $899 | $948 | $998 | $1,048 | $1,096 |
| | 16.0% | $1,170 | $1,232 | $1,296 | $1,355 | $1,412 |

| Stand-alone valuation range | Basis | $500 | $550 | $600 | $650 | $700 | $750 | $800 |
|---|---|---|---|---|---|---|---|---|
| **Multiple of Management Fee Operating Income:** | | | | | | | | |
| Run rate | $52.5 | 9.5x | 10.5x | 11.4x | 12.4x | 13.3x | 14.3x | 15.2x |
| | | | | | | | | |
| **Multiple of pre-tax profit:**[1] | | | | | | | | |
| Run rate @ 4% average net investment performance | $89.2 | 5.6x | 6.2x | 6.7x | 7.3x | 7.9x | 8.4x | 9.0x |
| Run rate @ 8% average net investment performance | 125.8 | 4.0x | 4.4x | 4.8x | 5.2x | 5.6x | 6.0x | 6.4x |
| Run rate @ 16% average net investment performance | 199.2 | 2.5x | 2.8x | 3.0x | 3.3x | 3.5x | 3.8x | 4.0x |

| | Multi-Strategy Fund | Single-Strategy Funds | JPM assets |
|---|---|---|---|
| Management fee compensation (% of mgmt fees) | 25% | 33% | 25% |
| Incentive fee compensation (% of incentive fees) | 50% | 60% | 50% |
| Estimated corporate overhead (allocated to mgmt fees) | $30 | $0 | $0 |
| Corporate overhead annual growth | 10.0% | NA | NA |
| Fund expenses | 0.40% | 0.40% | 0.40% |
| Total AUM capped at $10 billion | | | |
| Tax rate on upstreamed earnings | 38% | | |
| JPMorgan ownership | 40% initial ownership, 20% incremental purchases at the end of years 3, 4, 5 | | |
| Intangibles | Amortized over 15 years and 100% tax deductible | | |

| $ in millions | 1/1/05 | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|---|---|---|
| Average AUM | $6,100 | $7,896 | $9,039 | $10,269 | $11,599 | $12,909 | $14,106 | $15,303 | $16,617 | $18,097 |
| Management fee operating income | | $76 | $90 | $105 | $122 | $139 | $156 | $178 | $203 | $231 |
| Net incentive fee income | | 91 | 111 | 128 | 147 | 168 | 190 | 212 | 239 | 269 |
| Pre-tax profit | | 168 | 201 | 233 | 269 | 307 | 346 | 390 | 441 | 500 |

| | |
|---|---|
| ■ Key employee retention | ■ Retention of founders, continued provision of attractive platform, and unchanged compensation formula should all support continuity<br>■ Additional financial incentives for PMs and ultimate succession for G&H are important issues to be considered |
| ■ Capacity | ■ Convertible arbitrage strategy is likely at or near capacity<br>■ Multi-strategy format with spin-off model potentially alleviates pressure; however, it depends on the ability of Highbridge to build performance track records in new strategies |
| ■ Buying at the high point of industry evolution | ■ Highbridge model well-placed for continued growth and to resist fee pressures contingent on sustained performance<br>■ Founders have a track record of successfully anticipating and adjusting to changing industry dynamics |
| ■ Paying for future investment performance | ■ Proposed transaction consideration based on a multiple of management fees only |
| ■ Control environment | ■ Solid operating platform regulated as a NASD registered broker/dealer |
| ■ High water mark | ■ The multi-strategy structure of Highbridge has a lower risk of sustained declines than a single strategy fund |

| | | Highbridge | S&P 500 | Lehman Aggregate Bond | Merrill Lynch Convertible Bond |
|---|---|---|---|---|---|
| Annualized return | 1 yr | 10.57% | 35.12% | 5.40% | 26.14% |
| | 3 yrs | 9.90% | 0.63% | 7.44% | 8.31% |
| | 5 yrs | 17.38% | (1.19)% | 7.29% | 7.65% |
| | 1/1/93–3/31/04 | 16.08% | 10.89% | 7.28% | 10.40% |
| Standard deviation | 1 yr | 2.42% | 10.09% | 5.21% | 5.36% |
| | 3 yrs | 2.81% | 17.08% | 4.22% | 10.01% |
| | 5 yrs | 3.89% | 16.94% | 3.73% | 15.72% |
| | 1/1/93–3/31/04 | 5.03% | 15.05% | 3.85% | 12.66% |
| Sharpe ratio | 1 yr | 3.68 | 2.96 | 0.84 | 4.64 |
| | 3 yrs | 2.59 | 0.00 | 1.29 | 0.63 |
| | 5 yrs | 3.47 | (0.19) | 1.03 | 0.27 |
| | 1/1/93–3/31/04 | 2.21 | 0.49 | 0.80 | 0.48 |

| $ millions | | % |
|---|---|---|
| Management fees | $26.2 | 42% |
| Performance fees | 35.6 | 57 |
| Other | 0.9 | 1 |
| | 62.7 | |
| | | |
| Compensation and benefits | 19.0 | |
| Other | 5.9 | |
| Income allocable to members | 37.9 | 60 |

| ($ millions) | At July 16, 2001 |
|---|---|
| Net book value | $4.5 |
| Intangible assets | 45.8 |
| Goodwill | 159.9 |
| **Net assets acquired** | **$210.2** |

| Announcement date | Acquirer/target | Type of assets acquired | AUM acquired | Purchase price | Transaction value | Purchase price multiple | Transaction value multiples | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Net income | AUM | LTM revenue | LTM mgmt. fees | LTM EBITDA | LTM EBIT | |
| 11/25/03 | Man group plc/BlueCrest[1] | Fixed income arbitrage/hedge fund | 3,100 | $168 | $168 | NA | 23.0% | NA | NA | NA | 13.8x | |
| 05/24/02 | Man Group plc/RMF | Fund of funds | 8,500 | 833 | 833 | 39.0x | 9.8 | NA | NA | NA | 30.9 | |
| 05/01/02 | UniCredito Italiano Group/Momentum Group | Fund of funds | 1,500 | 110 | 110 | NA | 7.3 | NA | NA | NA | NA | |
| 01/15/02 | TA Associates/Clinton Group | Single/hedge fund | 5,800 | 110 | 110 | NA | 6.0 | NA | NA | NA | NA | |
| 07/10/01 | Mass Mutual/OppenheimerFunds/Tremont Advisers | Fund of funds/consulting | 8,000 | 145 | 144 | 32.3 | 1.8 | 5.4 | 6.3 | 17.9 | 19.9 | |
| 06/18/01 | John Nuveen/Symphony[2] | Hedge fund | 4,000 | 210 | 210 | 9.2 | 5.3 | 3.3 | 8.0 | 5.5 | 5.5 | |

JUNE 2004

# PROJECT ALPHA DISCUSSION MATERIALS

STRICTLY PRIVATE AND CONFIDENTIAL

JPMorgan

# Objectives of the parties



**JPMC**

- Enhance capabilities in rapidly-growing alternative investment space
- Benefit from distribution, branding and talent recruitment synergies
- Strengthen perception of JPMF as an "alpha" manager
- Retain key personnel by aligning interests of founders, portfolio management teams and JPMC
- Keep Highbridge separate in order to minimize friction over compensation between Highbridge and JPMF
- Avoid paying a multiple for uncertain future performance fees
- Control, eventually to 100%, while deferring a portion of the consideration in the form of a staged purchase

**Highbridge**

- Liquidity event with an attractive valuation
- Affiliation provides additional branding, recruitment opportunities and potentially distribution
- Founders' legacy of building a sustainable hedge fund model
- Create wealth for PMs and long-serving professionals
- Continued operating autonomy while benefiting from scale advantages of a large organization
- Significant upside if growth is realized (future purchases, interim earnings and carried interest tail)

# Investment considerations

| Key concerns | Comments |
| --- | --- |
| Key employee retention | Retention of founders, continued provision of attractive platform, and unchanged compensation formula should all support continuity<br>Additional financial incentives for PMs and ultimate succession for founders are important issues to be considered |
| Capacity | Convertible arbitrage strategy is likely at or near capacity<br>Multi-strategy format with spin-off model potentially alleviates pressure; however, it depends on the ability of Highbridge to build performance track records in new strategies<br>Scope for adding strategies may be enhanced by affiliation with JPMF |
| Compensation frictions with AWM | Little operating integration expected at portfolio management level<br>Changes to compensation scheme for AWM PMs currently being considered would significantly diminish the scope for friction |
| Buying at the high point of industry evolution | Highbridge model well-placed for continued growth and to resist fee pressures contingent on sustained performance<br>Founders have a track record of successfully anticipating and adjusting to changing industry dynamics |
| Paying for future investment performance and for synergies | Proposed transaction consideration based on a multiple of management fees only<br>Transaction structure does not envisage a separation of JPMC-generated assets in determining future payments and incentive fee draws for founders in order to align interests |
| Control environment | Solid operating platform regulated as a NASD registered broker/dealer<br>Focus for ongoing due diligence |
| High water mark | The multi-strategy structure of Highbridge has a lower risk of sustained declines than a single strategy fund |
| Affiliate status | Ability for JPMorgan to act as a counterparty to Highbridge may be circumscribed should it qualify as a 23(A) affiliate |

# Preliminary proposal for discussion

**Preliminary term sheet**

**Purchase price**

- [8x] Management Fee Operating Income only (no consideration for incentive fees)
- Based on estimated run-rate of [$52.5] million, the valuation for 100% would be [$420] million

**Transaction structure**

- Initial purchase of [40%] of the company for consideration of [$168] million
- Additional purchases of [20%] on the 3rd, 4th and 5th anniversaries of the initial purchase at the same multiple of Management Fee Operating Income as the initial purchase applied to the 12 month period prior to the additional purchase
- Total consideration would be subject to a cap in net present value terms and the additional purchases can be deferred in the event of a decline in AUM for two consecutive years
- In lieu of JPMC paying for the Net Incentive Fee Income, JPMC would only become entitled to it pro rata over 5 years. This applies to each of the four purchases as per the following table:

**JPMC ownership in Net Incentive Fee Income**

| | | Year 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|
| Initial purchase (year 1) | 40% | 0% | 8% | 16% | 24% | 32% | 40% | 40% |
| 2nd payment (year 4) | 20% | - | - | - | 0% | 4% | 8% | 12% |
| 3rd payment (year 5) | 20% | - | - | - | - | 0% | 4% | 8% |
| 4th payment (year 6) | 20% | - | - | - | - | - | 0% | 4% |
| **Total** | | **0%** | **8%** | **16%** | **24%** | **36%** | **52%** | **64%** |

**Other**

- Employment and non-compete agreements with the founders
- AWM to enjoy certain limited management rights
- Transaction structure aimed at achieving optimal tax consequences for both JPMC and the founders while minimizing intangibles

# Financial consequences to JPMorgan Chase

**Base case[1] financial performance**

| | 1/1/05 | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|---|---|---|
| **Highbridge results:** | | | | | | | | | | |
| Average AUM | | $7,503 | $8,356 | $9,275 | $10,268 | $11,344 | $12,416 | $13,472 | $14,628 | $15,927 |
| Management fee operating income | | $72 | $82 | $92 | $103 | $115 | $129 | $147 | $167 | $191 |
| Net incentive fee income | | 91 | 107 | 120 | 134 | 150 | 166 | 185 | 209 | 235 |
| Pre-tax profit | | 163 | 189 | 212 | 237 | 265 | 295 | 332 | 376 | 426 |
| **JPMC ownership and earnings:** | | | | | | | | | | |
| Management fee operating income | | 40% | 40% | 40% | 60% | 80% | 100% | 100% | 100% | 100% |
| Net incentive fee income | | 0% | 8% | 16% | 24% | 36% | 52% | 64% | 76% | 88% |
| JPMC pre-tax income | | $29 | $41 | $56 | $94 | $146 | $216 | $265 | $326 | $398 |
| Amortization of intangibles[2] | | (11) | (11) | (11) | (22) | (34) | (48) | (48) | (48) | (48) |
| Tax expense[3] | | (7) | (11) | (17) | (27) | (42) | (64) | (83) | (106) | (133) |
| Cost of funding[4] | | (6) | (6) | (6) | (12) | (19) | (26) | (26) | (26) | (26) |
| **Earnings contribution** | | $5 | $13 | $22 | $32 | $50 | $78 | $108 | $146 | $191 |
| **Investment analysis[5]:** | | | | | | | | | | |
| New investment at Jan 1 | $168 | $0 | $0 | $0 | $165 | $184 | $206 | $0 | $0 | $0 |
| Cumulative investment | 168 | 168 | 168 | 168 | 333 | 517 | 723 | 723 | 723 | 723 |
| Intangibles | 420 | 409 | 398 | 386 | 618 | 622 | 598 | 550 | 502 | 454 |
| **GAAP ROI** | | **2.9%** | **7.5%** | **12.9%** | **9.8%** | **9.7%** | **10.7%** | **15.0%** | **20.2%** | **26.4%** |

[1] Assumes annual inflows of $250 million, average net investment performance of 8%; see page 9 for key assumptions
[2] Straight-line amortization over 15 years
[3] 38% tax rate
[4] 5.85% pre-tax
[5] Purchase price based on 8x respective previous twelve month Management Fee Operating Income

PROJECT ALPHA DISCUSSION MATERIALS

JPMorgan

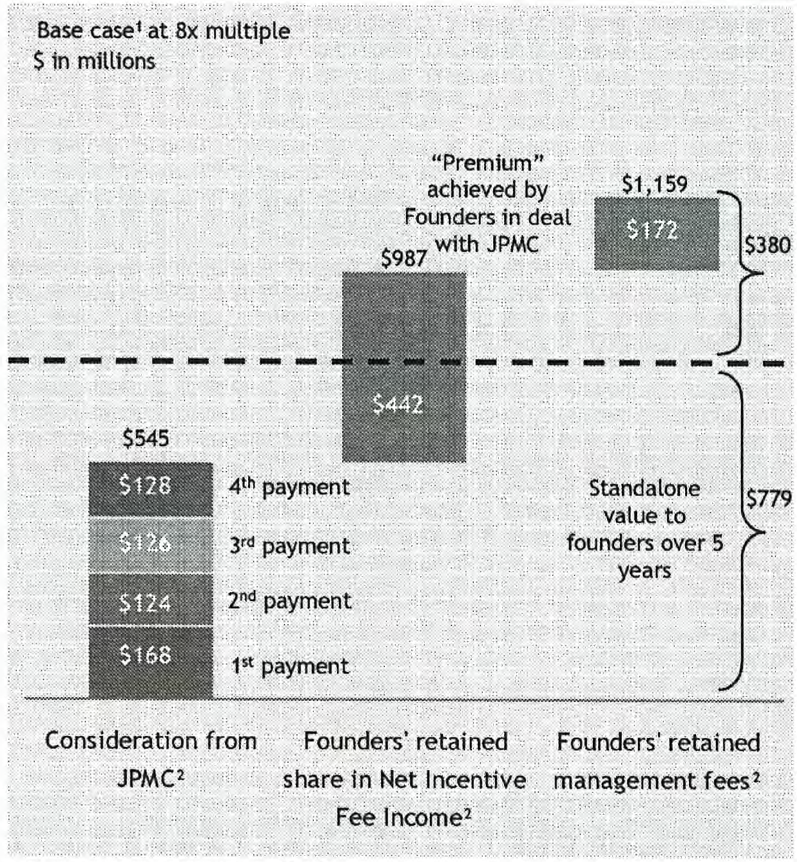
# Financial consequences to founders

PROJECT ALPHA DISCUSSION MATERIALS

## Assumptions and observations

- Founders receive consideration and compensation in four parts:
  - Up-front consideration for a [40%] interest
  - Additional consideration paid on 3rd, 4th, and 5th anniversaries for additional interest
  - Ongoing interest in management fees until final sale on 5th anniversary
  - Tail interests in the Net Incentive Fee Income
- Additionally, the founders would benefit from the treatment of the consideration paid for tax purposes as a capital transaction subject to a 15% tax rate rather than as ordinary income
- We have assumed that the founders will apply a discount rate of 10% to the consideration payable for the interests and a rate of 15% to their share of the Net Incentive Fee Income stream

## Value proposition for founders




[1] Base case assumes inflows of $250mm per annum, average net investment performance of 8% and a Multi-Strategy Fund inflow cap of $10 billion AUM and Single-Strategy Funds inflow cap of $4 billion AUM

[2] Consideration and management fees discounted at 10% and incentive fees discounted at 15%

JPMorgan

# Premium value to founders in various scenarios

$ millions

| Return case | 5-year value to founders without JPMC deal | NPV of: Consideration[1] | NPV of: Share in incentive fee income[1] | NPV of: Retained mgmt fees[1] | Total | Value of JPMC deal as a multiple of stand-alone |
|---|---|---|---|---|---|---|
| **Pre-tax** | | | | | | |
| 4% | $394 | $362 | $195 | $100 | $657 | 1.7x |
| 8% | 779 | 545 | 442 | 172 | 1,159 | 1.5x |
| 16% | 1,353 | 817 | 954 | 233 | 2,004 | 1.5x |
| **After-tax[2]** | | | | | | |
| 4% | $236 | $308 | $117 | $60 | $485 | 2.1x |
| 8% | 467 | 463 | 265 | 103 | 832 | 1.8x |
| 16% | 812 | 694 | 572 | 140 | 1,407 | 1.7x |
| | | Low | | | | 1.5x |
| | | High | | | | 2.1x |
| | | Average | | | | 1.7x |

Note: see page 4 for key assumptions
[1] Consideration and management fees discounted at 10% and incentive fees discounted at 15%
[2] 15% consideration tax; 40% tax on Management Fee Operating Income and Net Incentive Fee Income



JPMorgan

# Benefits of proposed transaction with JPMorgan Chase to founders



**JPMorgan Chase as a partner**

- Allows founders to achieve all of their objectives, including liquidity with a higher amount of certainty
- Strong existing relationship with founders key to success of the partnership
- JPMorgan has the strategic interest and platform to make an unprecedented transaction such as this succeed
- JPMorgan has an unrivalled risk management capability to add to Highbridge without significant friction costs in terms of foregone revenues
- Combined ability and commitment to create new institutional model for hedge fund management

**Transaction structure**

- Sharing of financial risks and rewards and strong alignment of interests
- Greater certainty around value to founders from management fees with significant upside sharing
- Meets important financial hurdles for JPMC
- JPMC understands that ongoing autonomy and management stability are key issues for continued success of Highbridge
- Likely beneficial tax and accounting treatment

# Next steps

- Discuss proposed transaction structure (6/15/04)
- Founders to meet with Jamie Dimon and David Coulter (6/23/04)
- Additional due diligence
- Establish legal, tax and accounting structure
- Negotiations of final terms and agreements

# Assumptions

## Projection assumptions

| | Multi-Strategy Fund | Single-Strategy Funds |
|---|---|---|
| Management fee compensation (% of mgmt fees) | 25% | 33% |
| Incentive fee compensation (% of incentive fees) | 50% | 60% |
| Corporate overhead (allocated against mgmt fees) | $30 | $0 |
| Corporate overhead annual growth | 10.0% | NA |
| Fund expenses | 0.40% | 0.40% |

| | |
|---|---|
| JPMorgan ownership | [40%] initial ownership, [20%] incremental purchases at the end of years 3, 4, 5 |
| Intangibles | Amortized over 15 years and 100% tax deductible |

## Fund flow, investment return and fee structure case

| | Base case |
|---|---|
| Average performance after management fees and expenses[1] | 8% |
| Fund flows | $250 |
| Multi-Strategy Fund: | |
| Management fee (% of average AUM) | 2% |
| Incentive fee (% of market performance) | 25% |
| AUM cap[2] | $10,000 |
| Single-Strategy Funds: | |
| Management fee (% of average AUM) | 1.5% |
| Incentive fee (% of market performance) | 20% |
| AUM cap[2] | $4,000 |

[1] Gross return is 13.1%

[2] Inflows stop at AUM cap

# Stand-alone earnings sensitivity analysis and base case cash flows to founders

## NPV of pre-tax earnings to founders from continuing operations (2005E - 2009E)[1]

| $ in millions | | Inflows per annum | | | | |
|---|---|---|---|---|---|---|
| | | $0 | $125 | $250 | $375 | $500 |
| Net investment performance % | 0.0% | $156 | $179 | $201 | $223 | $245 |
| | 4.0% | 341 | 368 | 394 | 420 | 447 |
| | 8.0% | 692 | 735 | 779 | 823 | 866 |
| | 12.0% | 948 | 1,002 | 1,057 | 1,112 | 1,164 |
| | 16.0% | 1,218 | 1,285 | 1,353 | 1,416 | 1,477 |

[1] Management Fee Operating Income discounted at 10%; Net Incentive Fee Income discounted at 15%

## NPV of base case cash flows to founders

| | 1/1/05 | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Without JPMC deal:** | | | | | | | | | | | | |
| Mgmt fee operating income[1] | | $69 | $71 | $72 | $74 | $75 | | | | | | |
| Incentive fee operating income[2] | | 85 | 87 | 85 | 82 | 80 | | | | | | |
| Annual total | | 154 | 157 | 157 | 156 | 155 | | | | | | |
| Pre-tax total | $779 | | | | | | | | | | | |
| After-tax total | $467 | | | | | | | | | | | |
| **With JPMC deal:** | | | | | | | | | | | | |
| Consideration[1] | $168 | $0 | $0 | $0 | $124 | $126 | $128 | $0 | $0 | $0 | $0 | $545 |
| Tail interest[2] | 0 | 85 | 80 | 71 | 63 | 51 | 37 | 27 | 18 | 9 | 3 | 442 |
| Interim earnings[1] | 0 | 41 | 43 | 43 | 30 | 15 | 0 | 0 | 0 | 0 | 0 | 172 |
| Annual total | $168 | $126 | $122 | $115 | $216 | $192 | $165 | $27 | $18 | $9 | $3 | $1,159 |
| Pre-tax total | $1,159 | | | | | | | | | | | |
| After-tax total | $834 | | | | | | | | | | | |

Note: 15% consideration tax; 40% tax on Management Fee Operating Income and Net Incentive Fee Income
[1] Present value; discounted at 10%
[2] Present value; discounted at 15%

JPMorgan

| | 1/1/05 | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Without JPMC deal:** | | | | | | | | | | | | |
| Mgmt fee operating income[1] | | $69 | $71 | $72 | $74 | $75 | | | | | | |
| Incentive fee operating income[2] | | 85 | 87 | 85 | 82 | 80 | | | | | | |
| Annual total | | 154 | 157 | 157 | 156 | 155 | | | | | | |
| Pre-tax total | $779 | | | | | | | | | | | |
| After-tax total | $467 | | | | | | | | | | | |
| **With JPMC deal:** | | | | | | | | | | | | |
| Consideration[1] | $168 | $0 | $0 | $0 | $124 | $126 | $128 | $0 | $0 | $0 | $0 | $545 |
| Tail interest[2] | 0 | 85 | 80 | 71 | 63 | 51 | 37 | 27 | 18 | 9 | 3 | 442 |
| Interim earnings[1] | 0 | 41 | 43 | 43 | 30 | 15 | 0 | 0 | 0 | 0 | 0 | 172 |
| Annual total | $168 | $126 | $122 | $115 | $216 | $192 | $165 | $27 | $18 | $9 | $3 | $1,159 |
| Pre-tax total | $1,159 | | | | | | | | | | | |
| After-tax total | $834 | | | | | | | | | | | |

| | 1/1/05 | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|---|---|---|
| **Highbridge results:** | | | | | | | | | | |
| Average AUM | | $7,503 | $8,356 | $9,275 | $10,268 | $11,344 | $12,416 | $13,472 | $14,628 | $15,927 |
| Management fee operating income | | $72 | $82 | $92 | $103 | $115 | $129 | $147 | $167 | $191 |
| Net incentive fee income | | 91 | 107 | 120 | 134 | 150 | 166 | 185 | 209 | 235 |
| Pre-tax profit | | 163 | 189 | 212 | 237 | 265 | 295 | 332 | 376 | 426 |
| **JPMC ownership and earnings:** | | | | | | | | | | |
| Management fee operating income | | 40% | 40% | 40% | 60% | 80% | 100% | 100% | 100% | 100% |
| Net incentive fee income | | 0% | 8% | 16% | 24% | 36% | 52% | 64% | 76% | 88% |
| JPMC pre-tax income | | $29 | $41 | $56 | $94 | $146 | $216 | $265 | $326 | $398 |
| Amortization of intangibles[2] | | (11) | (11) | (11) | (22) | (34) | (48) | (48) | (48) | (48) |
| Tax expense[3] | | (7) | (11) | (17) | (27) | (42) | (64) | (83) | (106) | (133) |
| Cost of funding[4] | | (6) | (6) | (6) | (12) | (19) | (26) | (26) | (26) | (26) |
| **Earnings contribution** | | $5 | $13 | $22 | $32 | $50 | $78 | $108 | $146 | $191 |
| **Investment analysis[5]:** | | | | | | | | | | |
| New investment at Jan 1 | $168 | $0 | $0 | $0 | $165 | $184 | $206 | $0 | $0 | $0 |
| Cumulative investment | 168 | 168 | 168 | 168 | 333 | 517 | 723 | 723 | 723 | 723 |
| Intangibles | 420 | 409 | 398 | 386 | 618 | 622 | 598 | 550 | 502 | 454 |
| **GAAP ROI** | | **2.9%** | **7.5%** | **12.9%** | **9.8%** | **9.7%** | **10.7%** | **15.0%** | **20.2%** | **26.4%** |

| | Base case |
|---|---|
| Average performance after management fees and expenses[1] | 8% |
| Fund flows | $250 |
| Multi-Strategy Fund: | |
| Management fee (% of average AUM) | 2% |
| Incentive fee (% of market performance) | 25% |
| AUM cap[2] | $10,000 |
| Single-Strategy Funds: | |
| Management fee (% of average AUM) | 1.5% |
| Incentive fee (% of market performance) | 20% |
| AUM cap[2] | $4,000 |

| Return case | 5-year value to founders without JPMC deal | NPV of Consideration[1] | NPV of Share in incentive fee income[1] | NPV of Retained mgmt fees[1] | Total | Value of JPMC deal as a multiple of stand-alone |
|---|---|---|---|---|---|---|
| **Pre-tax** | | | | | | |
| 4% | $394 | $362 | $195 | $100 | $657 | 1.7x |
| 8% | 779 | 545 | 442 | 172 | 1,159 | 1.5x |
| 16% | 1,353 | 817 | 954 | 233 | 2,004 | 1.5x |
| **After-tax[2]** | | | | | | |
| 4% | $236 | $308 | $117 | $60 | $485 | 2.1x |
| 8% | 467 | 463 | 265 | 103 | 832 | 1.8x |
| 16% | 812 | 694 | 572 | 140 | 1,407 | 1.7x |
| | | Low | | | | 1.5x |
| | | High | | | | 2.1x |
| | | Average | | | | 1.7x |

| | Multi-Strategy Fund | Single-Strategy Funds |
|---|---|---|
| Management fee compensation (% of mgmt fees) | 25% | 33% |
| Incentive fee compensation (% of incentive fees) | 50% | 60% |
| Corporate overhead (allocated against mgmt fees) | $30 | $0 |
| Corporate overhead annual growth | 10.0% | NA |
| Fund expenses | 0.40% | 0.40% |

| | |
|---|---|
| JPMorgan ownership | [40%] initial ownership, [20%] incremental purchases at the end of years 3, 4, 5 |
| Intangibles | Amortized over 15 years and 100% tax deductible |

| | |
|---|---|
| ■ Key employee retention | ■ Retention of founders, continued provision of attractive platform, and unchanged compensation formula should all support continuity<br>■ Additional financial incentives for PMs and ultimate succession for founders are important issues to be considered |
| ■ Capacity | ■ Convertible arbitrage strategy is likely at or near capacity<br>■ Multi-strategy format with spin-off model potentially alleviates pressure; however, it depends on the ability of Highbridge to build performance track records in new strategies<br>■ Scope for adding strategies may be enhanced by affiliation with JPMF |
| ■ Compensation frictions with AWM | ■ Little operating integration expected at portfolio management level<br>■ Changes to compensation scheme for AWM PMs currently being considered would significantly diminish the scope for friction |
| ■ Buying at the high point of industry evolution | ■ Highbridge model well-placed for continued growth and to resist fee pressures contingent on sustained performance<br>■ Founders have a track record of successfully anticipating and adjusting to changing industry dynamics |
| ■ Paying for future investment performance and for synergies | ■ Proposed transaction consideration based on a multiple of management fees only<br>■ Transaction structure does not envisage a separation of JPMC-generated assets in determining future payments and incentive fee draws for founders in order to align interests |
| ■ Control environment | ■ Solid operating platform regulated as a NASD registered broker/dealer<br>■ Focus for ongoing due diligence |
| ■ High water mark | ■ The multi-strategy structure of Highbridge has a lower risk of sustained declines than a single strategy fund |
| ■ Affiliate status | ■ Ability for JPMorgan to act as a counterparty to Highbridge may be circumscribed should it qualify as a 23(A) affiliate |

**Purchase price**

- [8x] Management Fee Operating Income only (no consideration for incentive fees)
- Based on estimated run-rate of [$52.5] million, the valuation for 100% would be [$420] million

**Transaction structure**

- Initial purchase of [40%] of the company for consideration of [$168] million
- Additional purchases of [20%] on the 3rd, 4th and 5th anniversaries of the initial purchase at the same multiple of Management Fee Operating Income as the initial purchase applied to the 12 month period prior to the additional purchase
- Total consideration would be subject to a cap in net present value terms and the additional purchases can be deferred in the event of a decline in AUM for two consecutive years
- In lieu of JPMC paying for the Net Incentive Fee Income, JPMC would only become entitled to it pro rata over 5 years. This applies to each of the four purchases as per the following table:

**JPMC ownership in Net Incentive Fee Income**

| | | Year 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|
| Initial purchase (year 1) | 40% | 0% | 8% | 16% | 24% | 32% | 40% | 40% |
| 2nd payment (year 4) | 20% | - | - | - | 0% | 4% | 8% | 12% |
| 3rd payment (year 5) | 20% | - | - | - | - | 0% | 4% | 8% |
| 4th payment (year 6) | 20% | - | - | - | - | - | 0% | 4% |
| **Total** | | **0%** | **8%** | **16%** | **24%** | **36%** | **52%** | **64%** |

**Other**

- Employment and non-compete agreements with the founders
- AWM to enjoy certain limited management rights
- Transaction structure aimed at achieving optimal tax consequences for both JPMC and the founders while minimizing intangibles

| $ in millions | | Inflows per annum | | | | |
|---|---|---|---|---|---|---|
| | | $0 | $125 | $250 | $375 | $500 |
| Net investment performance % | 0.0% | $156 | $179 | $201 | $223 | $245 |
| | 4.0% | 341 | 368 | 394 | 420 | 447 |
| | 8.0% | 692 | 735 | 779 | 823 | 866 |
| | 12.0% | 948 | 1,002 | 1,057 | 1,112 | 1,164 |
| | 16.0% | 1,218 | 1,285 | 1,353 | 1,416 | 1,477 |